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Q60

# The term 'Base Erosion and Profit Shifting' is sometimes seen in the news in the context of (a) Mining operation by multinational companies in resource-rich but backward areas (b) Curbing of the tax evasion by multinational companies (c) Exploitation of genetic resources of a country by multinational companies (d) Lack of consideration of environmental costs in the planning and implementation of developmental projects Official key: B.

UPSC Civil Services Prelims 2016 · General Studies · 2 marks · Current Affairs and GK

Current events, government schemes, miscellaneous GK - Prelims GS Paper I.

## Explanation

### (a)

Mining by multinational companies in resource-rich backward areas is a development-and-environment issue, sometimes discussed as resource curse. It is not what 'Base Erosion and Profit Shifting' means in tax diplomacy. This option is not the key.

### (b) Official key

Base Erosion and Profit Shifting (BEPS) refers to tax-planning strategies by which multinational enterprises shift profits from high-tax to low-tax jurisdictions and erode the tax base of the countries where real activity occurs. The OECD/G20 BEPS project aims to curb that tax avoidance and evasion. That is why (b) is the official key.

### (c)

Exploitation of genetic resources by MNCs is the biopiracy / Nagoya Protocol debate, not BEPS. This option is therefore wrong.

### (d)

Ignoring environmental costs in project planning is an externality or EIA failure, not the BEPS agenda. This option is not the key.

## Summary

Official key is (b) curbing of the tax evasion by multinational companies. BEPS is the OECD/G20 label for profit-shifting devices such as transfer mispricing, treaty shopping and hybrid mismatches. India has aligned several domestic rules with BEPS actions, including country-by-country reporting. The term is not about mines, biopiracy or EIA. Only (b) places it in international taxation.

## Related possible facts

These can be asked in a future Prelims paper.

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**OECD/G20 BEPS**

15-action plan endorsed in 2015

**CbCR**

Country-by-country reporting of MNE revenues and taxes

**MLI**

Multilateral Instrument to modify tax treaties against BEPS

**Equalisation levy / DST debates**

Digital-economy tax responses related to BEPS Action 1

**GAAR**

India's General Anti-Avoidance Rule, complementary to BEPS thinking



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